

Presentation for the Michigan State Board of Education



February 14, 2012
Financially Troubled Districts in
Distress

Deficit District Roles & Responsibilities





State School Aid Act

Section 102

- MCL 388.1702

A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid a further sum under this act until the district submits to the department for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred.



Uniform Budgeting and Accounting Act

- MCL 141.436

Except as otherwise permitted in MCL 388.1702 the **local school board** shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures including an accrued deficit to exceed total estimated revenues.



Uniform Budgeting and Accounting Act

- MCL 141.438

The administration of a school district shall not incur expenditures against an appropriation (Budget) account in excess of the amount appropriated (Budgeted) by the local school board.



Uniform Budgeting and Accounting Act

- MCL 141.439

A member of the legislative body, the chief administrative officer, or an employee of a school district shall not authorize or participate in the expenditure of funds except as authorized by the general appropriations act (budget).



District School Board and Administration Responsibility

- Local School Boards, elected by the constituents of local school districts, are charged with the responsibility for allocating financial (revenues) and human (staff) resources to accomplish the various educational objectives of the district.



District Responsibility

- MDE **does not** make decisions related to the actual expenditures or programs that a district experiencing a deficit will cut to achieve the positive fund balance. Those decisions remain the responsibility of the local school board and administration.



MDE Responsibility

- Establishing Deficit Elimination Plan procedures and forms used to monitor districts that encounter a deficit fund balance
- Determining which districts are in a deficit condition
- Collecting, analyzing and determining if a Deficit Elimination Plan is financially reasonable



MDE Responsibility

- Monitoring a district's adherence to a Deficit Elimination Plan by reviewing budgetary control reports
- Enforcing penalties on districts that fail to comply with laws related to its fiduciary responsibility
- Annual report to the Legislature related to the status of districts with deficit fund balances (MCL 388.1702(2) due in March each year)



Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- DEPs are due 30 days after receipt of MDE notification or 30 days after school aid budget passed, whichever is later
 - Failure to meet deadline results in withholding of school aid as provided in MCL 388.1702



Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- If DEP is not approvable, district is notified and given two weeks to revise and resubmit
 - Examples:
 - Missing information (approved budget, spreadsheet detail, etc.)
 - Financial assumptions used in the DEP are not reasonable
 - Deficit increases in any subsequent year
 - Deficit not eliminated in two years (up to five years if additional years granted by State Superintendent of Public Instruction)
 - DEP does not comply with previously MDE approved DEP (if applicable)



Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- If, after revision, DEP is still not approvable, school aid is withheld until DEP is approved (MCL 388.1702(1))
- If district fails to submit monthly Budgetary Control Report, school aid is withheld until report is filed.
- State Superintendent of Public Instruction can approve an extension to above deadlines (MCL 1702(5))



Deficit Elimination Plan (DEP) Approval

- Standard Contingencies
 - District must submit monthly budgetary control reports
 - District must revise DEP if local board adopts a revised budget
 - District must revise DEP if actual data, such as fall count or audited general fund balance, is significantly different than assumptions used in DEP
- Special Conditions
 - Section 102 of State School Aid Act allows MDE to set special conditions, for example:
 - District asked to provide evidence of staff reductions
 - District asked to provide verification of building closure
 - District asked to provide cash flow statements



Critical Factors of Probable Financial Stress

- 1) District has been in deficit for three or more consecutive years (including the current year); and
- 2) District's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and



Critical Factors of Probable Financial Stress, Continued

- 3) A fiscal review by one of MDE's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:
 - a) Lack of written policies and procedures or failure to follow the written policies and procedures
 - b) Poor cash management
 - c) Failure to provide Personnel Activity Records (PARs) for employees paid with federal funds
 - d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act);
 - e) Use of grant funds on unallowable expenditures
 - f) Going Concern/Qualified Opinion; and



Critical Factors of Probable Financial Stress, Continued

- 4) District has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying **one** or more of the following conditions:
 - a) A deficit increase from the previous year
 - b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of DEPs, delinquent return of phone calls or correspondence relating to the DEP, chronic late submission of Monthly Budgetary Control Reports)
 - c) History of supplying MDE with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or
- 5) District's failure to make payroll, failure to comply with bond or note covenants or failure to make pension fund deposits



Local Government and School District Fiscal Accountability Act

- Used as a last resort
- Lists triggers that can result in the determination of local government or school district financial problem
- The State Superintendent determines if a preliminary review is appropriate for a school district
- If a finding of probable financial stress is made, the Governor appoints a Review Team



Local Government and School District Fiscal Accountability Act

- The Review Team has 60 days (90 days if extension granted) to report to Governor
- Review Team concludes whether district is in financial distress, and degree of financial distress
- May result in Governor declaring a financial emergency and appointing an Emergency Manager